

PRIVATE MEDIA GROUP INC
Form 10-Q
November 13, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended _____ September 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-25067

PRIVATE MEDIA GROUP, INC.

(Exact Name of Issuer as Specified in its Charter)

Nevada
(State or other jurisdiction of incorporation or organization)

87-0365673
(I.R.S. Employer Identification Number)

Carretera de Rubi 22-26, 08190 Sant Cugat del Vallès, Barcelona, Spain
(Address of principal executive offices)

34-93-590-7070

Issuer's telephone number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Class	Outstanding at November 12, 2002
Common Stock, par value \$.001	28,608,609

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PRIVATE MEDIA GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	September 30, (Unaudited)	
	2001	2002	2002
	EUR	EUR (in thousands)	USD
ASSETS			
Cash and cash equivalents	6,408	1,559	1,529
Short-term investment	2,850	2,850	2,794
Trade accounts receivable	15,930	15,216	14,918
Related party receivable	1,563	5,687	5,576
Inventories - net (Note 3)	8,252	8,738	8,567
Deferred tax asset	159	159	156
Prepaid expenses and other current assets	1,785	2,029	1,989
TOTAL CURRENT ASSETS	36,946	36,239	35,528
Library of photographs and videos - net	14,241	17,079	16,744
Property, plant and equipment - net	2,786	3,771	3,697
Goodwill and other intangible assets (Note 5)	2,892	2,854	2,798
Other assets	220	221	217
TOTAL ASSETS	57,086	60,165	58,985
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term borrowings	4,530	4,568	4,478
Accounts payable trade	6,874	7,781	7,628
Income taxes payable	2,431	370	363
Deferred tax liability	22	21	20
Accrued other liabilities	728	1,208	1,184
TOTAL CURRENT LIABILITIES	14,586	13,948	13,674
Long-term borrowings	220	202	198
SHAREHOLDERS' EQUITY			
\$4.00 Series A Convertible Preferred Stock 10,000,000 shares authorized, 7,000,000 shares issued and outstanding			
Common Stock, \$.001 par value, 100,000,000 shares authorized 28,370,857 and 28,608,609 issued and outstanding at December 31, 2001 and September 30, 2002, respectively	863	863	846
Additional paid-in capital	14,316	15,698	15,390
Stock dividends to be distributed	396	356	349
Retained earnings	29,802	30,966	30,358
Accumulated other comprehensive income (loss)	(3,097)	(1,867)	(1,830)
TOTAL SHAREHOLDERS' EQUITY	42,280	46,016	45,114
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	57,086	60,165	58,985

See accompanying notes to consolidated statements.

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PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three-months ended September 30, (unaudited)		Nine-months ended September 30, (unaudited)		
	2001	2002	2001	2002	2002
	EUR	EUR	EUR (in thousands)	EUR	USD
Net sales	8,999	11,060	28,231	31,349	30,734
Cost of sales	2,521	5,575	9,479	13,684	13,416
Gross profit	6,478	5,485	18,752	17,665	17,319
Selling, general and administrative expenses	4,059	4,018	11,407	14,244	13,965
Offering expenses				1,401	1,374
Operating profit (loss)	2,419	1,467	7,345	2,020	1,980
Sale of controlled entity			1,889		
Interest expense		81	157	264	259
Interest income	56	114	124	119	117
Income before income tax	2,475	1,500	9,201	1,875	1,838
Income taxes (benefit)	313	29	1,898	(401)	(393)
Net income	2,161	1,529	7,303	2,276	2,231
Other comprehensive income:					
Foreign currency adjustments	(2,044)	(113)	(3,499)	1,230	1,206
Comprehensive income	117	1,416	3,804	3,506	3,437
Income applicable to common shares	1,778	1,173	6,111	1,166	1,143
Net income per share:					
Basic	0.06	0.04	0.22	0.04	0.04
Diluted	0.04	0.03	0.15	0.04	0.04

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-months ended September 30, (unaudited)		
	2001	2002	2002
	EUR	EUR (in thousands)	USD
Cash flows from operating activities:			
Net income	7,303	2,276	2,231
Adjustment to reconcile net income to net cash flows from operating activities:			
Depreciation	463	453	444
Bad debt provision		686	673
Provision for offering expenses		170	166
Tax provision on asset held for sale	436		
Amortization of goodwill and other intangible assets	235	38	38
Gain on sale of controlled entity	(1,878)		
Amortization of photographs and videos	3,466	4,306	4,222
Effects of changes in operating assets and liabilities:			
Trade accounts receivable	(2,633)	27	27
Related party receivable	(700)	(4,124)	(4,044)
Inventories	(242)	(487)	(477)
Prepaid expenses and other current assets	270	(244)	(239)
Accounts payable trade	34	733	718
Income taxes payable	382	(2,060)	(2,020)
Accrued other liabilities	783	480	470
Net cash provided by operating activities	7,918	2,253	2,209
Cash flows from investing activities:			
Short-term investments	2,880		
Investment in library of photographs and videos	4,644	7,144	7,004
Capital expenditures	408	1,438	1,410
Investment in subsidiary	933		
Cash from sale of controlled entity	(2,337)		
Investments in asset held for sale	(2,368)		
Investments in (sale of) other assets	(198)	1	1
Net cash used in investing activities	3,963	8,584	8,416
Cash flow from financing activities:			
Cash from conversion of warrants	189	232	228
Long-term loan (repayments on loan)	(529)	(18)	(18)
Short-term borrowings (repayments)	46	38	37
Net cash (used in) provided by financing activities	(294)	252	247
Foreign currency translation adjustment	(3,499)	1,230	1,206
Net (decrease) increase in cash and cash equivalents	163	(4,849)	(4,754)
Cash and cash equivalents at beginning of the period	1,624	6,408	6,282
Cash and cash equivalents at end of the period	1,786	1,559	1,529

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Cash paid for interest	110	185	181
Cash paid for taxes	232	1,659	1,626

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common stock		Preferred stock		Additional paid-in capital	Stock dividends to be distributed	Retained earnings	Accumulated other comprehensive income	Total shareholders equity
	Shares	Amounts	Shares	Amounts					
		EUR		EUR	EUR	EUR	EUR	EUR	EUR
Balance at January 1, 2001	27,750,920	862	7,000,000		10,166	774	23,372	(980)	34,194
Shares issued in acquisition	248,889	1			1,512				1,513
Translation Adjustment								(1,983)	(1,983)
Unrealized loss on short-term investment								(134)	(134)
Conversion of warrants and options	122,769				672				672
Stock dividends	248,279				1,966	(774)			11,165
Stock dividends to be distributed						396	(1,588)		(1,192)
Net income							8,017		8,017
Balance at December 31, 2001	28,370,857	863	7,000,000		14,316	396	29,802	(3,097)	42,280
Translation Adjustment								1,230	1,230
Conversion of warrants and options	55,295				232				232
Stock dividends	182,457				1,150	(1,150)			
Stock dividends to be distributed						1,110	(1,110)		
Net income							2,274		2,274
Balance at September 30, 2002	28,608,609	863	7,000,000		15,698	356	30,966	(1,867)	46,016

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.
NOTES TO THE CONSOLIDATED INERIM FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and results of operations have been included. Operating results for the nine months period ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on form 10-K for the year ended December 31, 2001.

Effective January 1, 2002, the Company changed its reporting currency from the Swedish Krona (SEK) to the euro (EUR). On that date, the euro became the principal currency in which Private Media Group generates its cash flows. The assets and operations of the Company s US based operations are currently not significant. The accompanying financial statements have been recast for all periods presented using methodology consistent with SFAS # 52.

Solely for the convenience of the reader, the accompanying consolidated financial statements as of September 30, 2002 and for the nine months then ended have been translated into United States dollars (USD) at the rate of EUR 1.02 per USD 1.00 the Interbank Exchange Rate on September 30, 2002. The translations should not be construed as a representation that the amounts shown could have been, or could be, converted into US dollars at that or any other rate.

2. Third Quarter Revenues and Expenses

As previously reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2001, in connection with the preparation of the Company s 2001 annual financial statements, management of the Company determined, as a result of circumstances related to the acquisition of certain assets from Anton Enterprises, Inc., it to be more appropriate accounting to reverse certain revenues and sales return provisions recorded in the first to the fourth quarters of 2001. The impact of these adjustments reduced previously recorded first nine months revenues in 2001 by EUR 888 thousand, net income by EUR 850 thousand and basic and diluted earnings per share by EUR 0.03 and EUR 0.02.

In April 2002, the Company assigned its rights to amounts due from Anton Enterprises related to certain products sold to Anton during 2001 and 2000 to an unrelated third party for EUR 1,076 thousand in cash. A portion of this amount related to accounts receivable from Anton written off in 2001 and the

PRIVATE MEDIA GROUP, INC.
NOTES TO THE CONSOLIDATED INERIM FINANCIAL STATEMENTS
(UNAUDITED)

balance related to the 2001 sales to Anton was not recognized for financial reporting purposes since certain criteria for the recognition of these sales as revenue had not been met.

As a result of this transaction, the Company recorded the previously unrecognized sales to Anton of EUR 548 thousand and a recovery (reduction of selling, general and administrative expenses) of previously written off accounts receivable of EUR 528 thousand during the quarter ended June 30, 2002.

3. Inventories

Inventories consist of the following:

	December 31,	September 30,
	2001	2002
	EUR	EUR
	(in thousands)	
Magazines for sale and resale	2,551	2,961
Video cassettes	2,929	2,644
DVDs	2,464	3,086
Other	308	46
	8,252	8,738